

# Select Committee on Pension Policy

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**Lois Clement**  
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**Representative Larry Crouse**

**Senator Karen Fraser\***

**Representative Bill Fromhold**

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**Corky Mattingly**  
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**J. Pat Thompson**  
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**David Westberg\***  
*SERS Actives*

**\* Executive Committee**

**June 20, 2005**

**10:00 AM - 4:00 PM**

**Senate Hearing Room 1  
Olympia**

## ORIENTATION AGENDA

- |  |   |
|--|---|
| 10-10:15 AM  | <b>(1) Orientation Manual</b>   |
| 10:15-11 AM  | <b>(2) Fundamentals of Pension Funding:<br/>Contributions and Rate-Setting</b>                |
| 11-11:30 AM  | <b>(3) Purchasing Power</b>   |
| 11:30-12:00 PM   | <b>(4) Federal Update - Social Security</b>   |
| 12-1 PM  | <b>LUNCH</b>  |
| 1-2:30 PM  | <b>(5) Evaluation of 2005 Session</b>   |
| 2:30-2:45 PM   | <b>Break</b>  |
| 2:45-4 PM  | <b>(6) Opportunities for Improvement</b>  |
| <br><b>Waterstreet Café, Wine Cellar Dining Room, 610 Water<br/>Street SW, Olympia</b> |   |
| 5-6:30 PM  | <b>(7) Members will meet with constituents and<br/>interest groups to review day's issues</b> |
| 6:30-8 PM  | <b>(8) DINNER (no-host)</b>   |

**(360) 753-9144**

**Fax: (360) 586-8135**

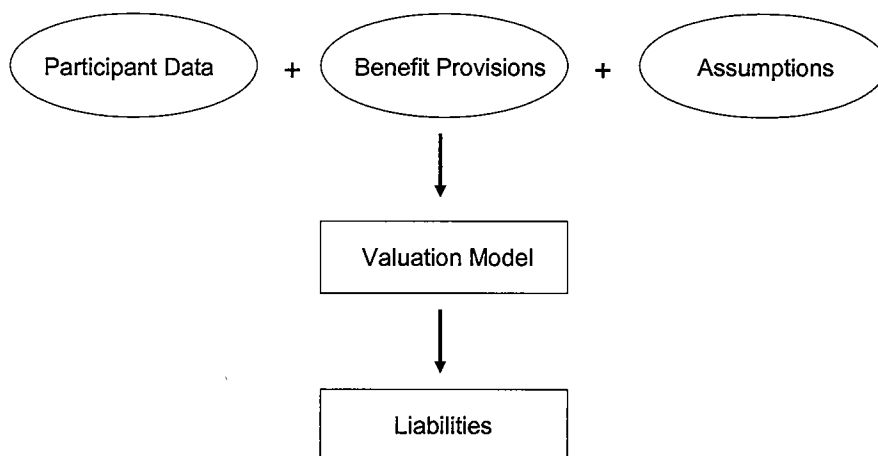
**TDD: 1-800-635-9993**

Persons with disabilities needing auxiliary aids or services for purposes of attending or participating in Select Committee on Pension Policy meetings should call (360) 753-9144. TDD 1-800-635-9993

# Fundamentals of Pension Funding

*Select Committee on Pension Policy*  
**2005 Orientation**

## Process Overview



## Participant Data

- Maintained by the Department of Retirement Systems (DRS).
- Transmitted from DRS to the Office of the State Actuary (OSA) annually.
- OSA reviews and edits data for valuation purposes.
- Data includes actives, retirees, beneficiaries, terminated vested and non-vested members.
- Over 500,000 records at 9/30/2003!

## Benefit Provisions

- Established under the Revised Code of Washington (RCW)
  - PERS (Chapter 41.40 RCW)
  - TRS (Chapter 41.32 RCW)
  - SERS (Chapter 41.35 RCW)
  - LEOFF (Chapter 41.26 RCW)
  - WSP (Chapter 43.43 RCW)
  - PSERS (Chapter 41.37 RCW) – effective 7/1/2006
- Summary of benefit provisions in the orientation manual.

## Benefit Provisions

- Benefit policies studied and changes recommended by the:
  - Select Committee on Pension Policy (SCPP)
  - LEOFF Plan 2 Retirement Board (LEOFF 2 Board)
- Changes subject to the approval of the Legislature.

## Assumptions - Economic

- Economic assumptions include:
  - Rate of investment return (8%)
  - Inflation (3.5%)
  - General salary increases (4.5%)
  - Growth in membership (1.25%; 0.90% in TRS)
- Pension Funding Council (PFC) may adopt changes to the economic assumptions – every 4 years.
- PFC assumptions subject to revision by the Legislature.

## Assumptions - Demographic

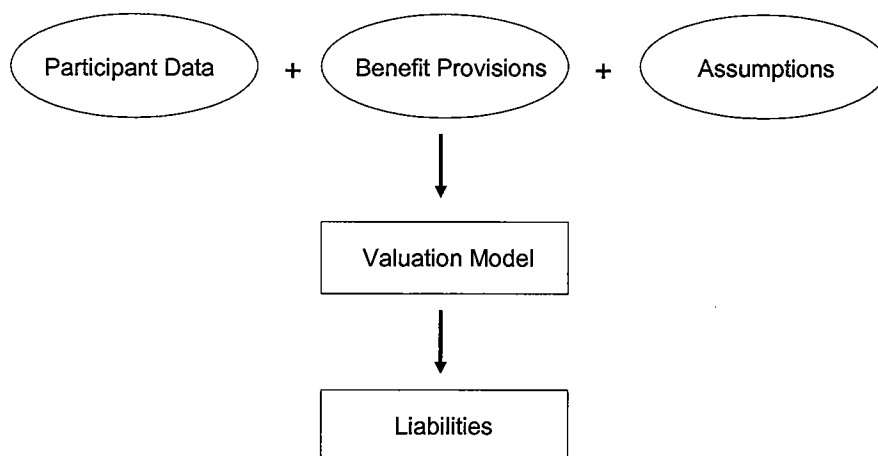
- Demographic assumptions include:
  - rates of morality
  - rates of retirement
  - rates of termination
  - rates of disability
- Determined from the results of an OSA experience study – at least every 6 years.
- PFC solicits and administers audit of OSA experience study.

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## Process Overview



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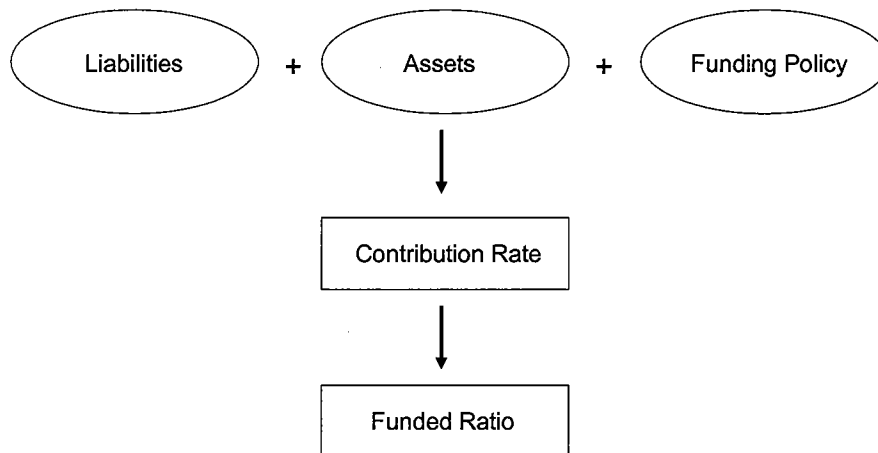
## Valuation Model

- A valuation model projects the timing and amount of expected future benefit payments for each participant under the economic and demographic assumptions.
- Based on a closed-group population.
- Provides a “snapshot” in time only.
- OSA maintains the model.

## Liabilities

- The results of the valuation model are discounted back to the valuation date to determine the present value of plan liabilities.
- The current interest or discount rate is 8%.
- The present value of liabilities is very sensitive to interest rate assumption changes!

## Process Overview



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## Assets

- Retirement assets are invested by the Washington State Investment Board (WSIB).
- WSIB transmits market value asset data to OSA annually for valuation purposes.
- OSA calculates a “smoothed” or actuarial value of the assets.

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## Funding Policy

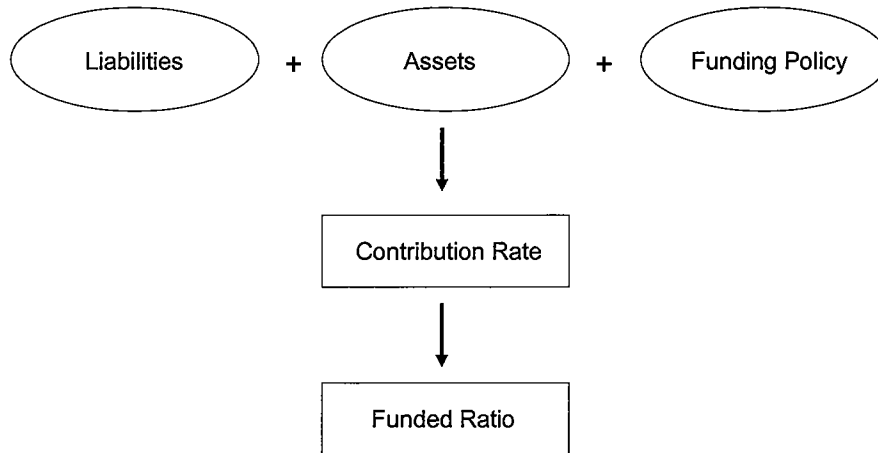
- The plan sponsor's policy for determining the periodic contribution or cost for a pension plan.
- It typically reflects:
  - the selection of an actuarial cost method; and
  - the amortization method for unfunded liabilities due to past service (if applicable).
- May also include contribution rate floors, frequency of rate changes, cost sharing and funding targets for benefit improvements.

## Funding Policy

- Factors which influence funding policy:
  - desired pattern of costs or contributions;
  - desired level of benefit security;
  - desired level of intergenerational equity;
  - desired funding levels; and
  - budgetary issues.



## Process Overview



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## Contribution Rate

- The contribution requirement to the pension plan under the plan's funding policy.
- Typically expressed and collected as a percentage of payroll.
- Simplified formula:
  - $(\text{Liabilities less Assets}) \div \text{Future Payroll}$

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## Rate-Setting Process

- Process described in the orientation manual.
- In September of even-numbered years, the PFC adopts basic contribution rates.
- The basic rates are collected during the ensuing biennium, subject to revision by the Legislature.
- Supplemental and temporary rates are collected for benefit improvements – new benefits not included in current basic rates.
- OSA provides supplemental rates to DRS.

## Rate-Setting Process

- The LEOFF 2 Board functions as the PFC for LEOFF Plan 2.
- The Board hires an outside actuary to audit the results of OSA basic and supplemental rate calculations for LEOFF Plan 2.
- Rate-setting process, for all plans, is tied to the overall funding policy.

## Funded Ratio

- A standard measure of a pension plan's financial health.
- $\text{Funded ratio} = \text{assets} \div \text{plan's accrued liability}$
- Smoothed assets are typically used.
- Valuation interest rate is typically used.
- Not a plan termination or plan settlement measure!

## Funded Ratio

- A funded ratio greater than 100% does not necessarily mean that a plan is over or surplus funded.
- A funded ratio less than 100% does not necessarily mean that a plan cannot pay today's promised benefits.
- Ratio compares current assets to liabilities for past service.
- Contribution rate includes components for both unfunded past and future costs.

## Washington State Pension Funded Ratios

<b>PERS</b>	<b>Plan 1</b>	<b>Plan 2/3</b>
At 9/30/2003	82%	142%
Past High*	97%	191%
Past Low*	63%	139%

*\* Based on the credited projected liability from 1986 to 2003 and the assumptions and methods in place at that time.*

## Washington State Pension Funded Ratios

<b>TRS</b>	<b>Plan 1</b>	<b>Plan 2/3</b>
At 9/30/2003	89%	155%
Past High*	100%	197%
Past Low*	50%	125%

*\* Based on the credited projected liability from 1986 to 2003 and the assumptions and methods in place at that time.*

## Washington State Pension Funded Ratios

<b>SERS</b>	<b>Plan 1</b>	<b>Plan 2/3</b>
At 9/30/2003	N/A	138%
Past High*	N/A	197%
Past Low*	N/A	138%

*\* Based on the credited projected liability from 2000 to 2003 and the assumptions and methods in place at that time.*

## Washington State Pension Funded Ratios

<b>LEOFF</b>	<b>Plan 1</b>	<b>Plan 2</b>
At 9/30/2003	112%	125%
Past High*	136%	161%
Past Low*	57%	124%

*\* Based on the credited projected liability from 1986 to 2003 and the assumptions and methods in place at that time.*

## Washington State Pension Funded Ratios

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### WSP

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At 9/30/2003	123%
Past High*	159%
Past Low*	87%

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*\* Based on the credited projected liability from 1986 to 2003 and the assumptions and methods in place at that time.*

## Funded Ratios - Observations

- All but two plans have funded ratios that exceed 100%.
- PERS 1 and TRS 1 have funded ratios below 90% and are declining due to the annual recognition of past investment losses (asset smoothing).
- No contributions to the PERS 1 and TRS 1 unfunded liability were made during 2003-05.
  - Contributions are suspended during the 2005-07 biennium.

## Washington State Unfunded Pension Liabilities

<b>PERS</b> (in millions)	<b>Plan 1</b>	<b>Plan 2/3</b>
Liability*	\$12,431	\$7,658
Assets	\$10,227	\$10,842
Unfunded Liability	\$2,204	-\$3,184

\* Based on the credited projected liability at 9/30/2003.

## Washington State Unfunded Pension Liabilities

<b>TRS</b> (in millions)	<b>Plan 1</b>	<b>Plan 2/3</b>
Liability*	\$10,207	\$2,552
Assets	\$9,086	\$3,949
Unfunded Liability	\$1,121	-\$1,397

\* Based on the credited projected liability at 9/30/2003.

## Washington State Unfunded Pension Liabilities

<b>SERS</b> (in millions)	<b>Plan 1</b>	<b>Plan 2/3</b>
Liability*	N/A	\$1,121
Assets	N/A	\$1,546
Unfunded Liability	N/A	-\$425

\* Based on the credited projected liability at 9/30/2003.

## Washington State Unfunded Pension Liabilities

<b>LEOFF</b> (in millions)	<b>Plan 1</b>	<b>Plan 2/3</b>
Liability*	\$4,282	\$2,194
Assets	\$4,803	\$2,740
Unfunded Liability	-\$521	-\$547

\* Based on the credited projected liability at 9/30/2003.



## Washington State Unfunded Pension Liabilities

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**WSP** (in millions)

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Liability*	\$540
Assets	\$664
Unfunded Liability	-\$124

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\* Based on the credited projected liability at 9/30/2003.

## Unfunded Pension Liabilities - Observations

- According to current funding policy, plans 2/3 and WSP remain fully funded.
- PERS 1 and TRS 1 unfunded liability to be amortized by 6/30/2024 – plans closed 9/30/1977.
- Plan 1 amortization method includes payroll from plans 2/3 and projected new entrants – not a common method.
- Plan 1 benefit improvements increase unfunded liability.

## Washington State Pension Funding Policies

- Provide a dependable and systematic funding process.
- Continue to fully fund plans 2/3 and WSP.
- Fully amortize the plan 1 unfunded liability by 6/30/2024.
- Establish predictable long-term rates which remain a predictable portion of future state budgets.

## Washington State Pension Funding Policies

- Fund benefit increases over the working lives of the members who receive the benefit – intergenerational equity.
- Employers are charged the same contribution rate, regardless of the plan in which employees hold membership (except for LEOFF)
  - policy is tied to plan 1 unfunded liability.

## Why does Funding Policy Matter?

- Helps decision makers address short-term needs without losing sight of long-term goals:
  - adequate funding
  - adequate benefits
  - stable and predictable contributions
  - intergenerational equity

## Challenges/Opportunities Ahead

- Challenges:
  - increasing contribution rates for plans 2/3 (returning to historical norms)
  - increasing plan 1 unfunded liability and rates
  - future gain-sharing liability
  - baby boomer retirements from plans 1
  - slower growth in membership?
  - tight budgets (state and local) and increment problem (stepping up from one budget to another)
  - achieving 8% investment return assumption in the long-run

# Challenges/Opportunities Ahead

- Opportunities:
  - Legislature is phasing into higher contribution rates for the plans 2/3 (more increases to come)
  - SCPP to study plan 1 unfunded liability
  - SCPP to study gain-sharing liability and options
  - SCPP and OSA to study post-retirement employment
  - state and local government tax revenues are improving
  - WSIB will be reviewing the results of an asset-liability study

# **Purchasing Power**

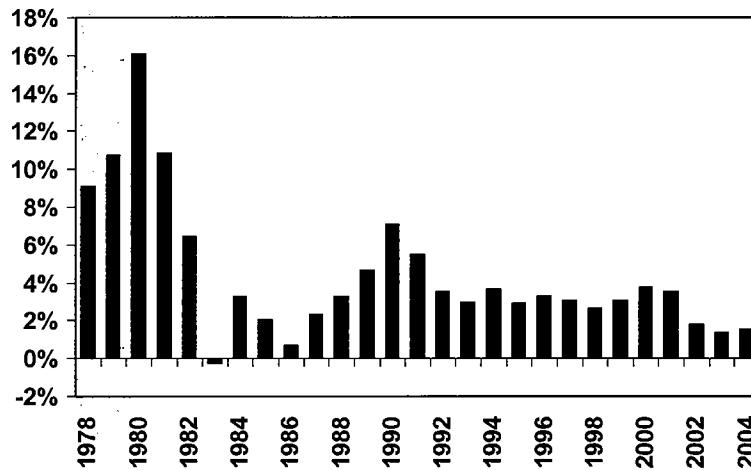
Robert Wm. Baker  
Senior Research Analyst

Select Committee on Pension Policy  
June 20, 2005

## **Purchasing Power**

... the measure of how a benefit retains its value over time.

## Annual Percent Changes Seattle CPI-W: 1978 - 2004

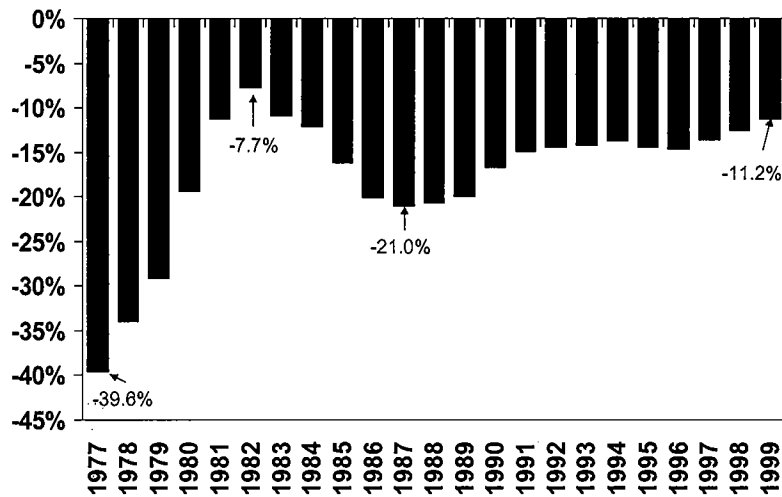


Source: U.S. Department of Labor, Bureau of Labor Statistics

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## Purchasing Power Loss In the First 5 Years of Retirement



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## **History**

- 1961: \$900 per year minimum for a member who retired at 70 years of age with 10 years of service
- 1995: Uniform COLA
- 2005: \$1,000 per month minimum for a member retired at least 25 years after 20 years of service
- See Appendix A in report

## **LEOFF 1 COLA Benefits**

Benefit fully indexed to the Seattle  
CPI-W

## **PERS 1 & TRS 1 COLA Benefits**

***Uniform Benefit:*** At age 66, after 1 yr of retirement, a dollar amount per month per year of service increased each year by 3%

## **Plan 2 COLA Benefits**

After 1 year of retirement, annual increases based on the Seattle CPI-W to a maximum of 3% per year



## **Plan 3 COLA Benefits**

After 1 year of retirement, annual increases in the defined benefit portion based on the Seattle CPI-W to a maximum of 3% per year

## **Plan 1 Retirement Policy**

- Prior to 1995
  - Ad hoc
  - Protection for those who lost the most
    - Loss of 40% of purchasing power after age 65
- Beginning in 1995
  - Service based rather than salary based
    - Greater protection for lower benefit retirees

## **Plan 2 Retirement Policy**

“...retiree benefits should have some form and degree of protection from inflation.”

## **Members Impacted**

- 19,740 active and 54,372 retired PERS 1 members
- 11,175 active and 33,855 retired TRS 1 members.

# Purchasing Power Calculation

$$(\text{Current Benefit} / \text{Original Benefit}) \times (\text{Original CPI} / \text{Current CPI})$$

Current Benefit : \$1,189

Original Benefit : \$1,002

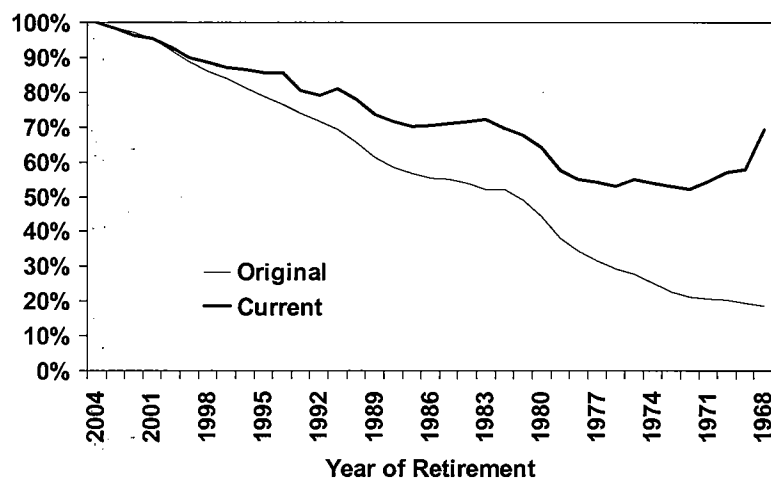
Original CPI-W : 369.0

Current CPI-W : 562.3

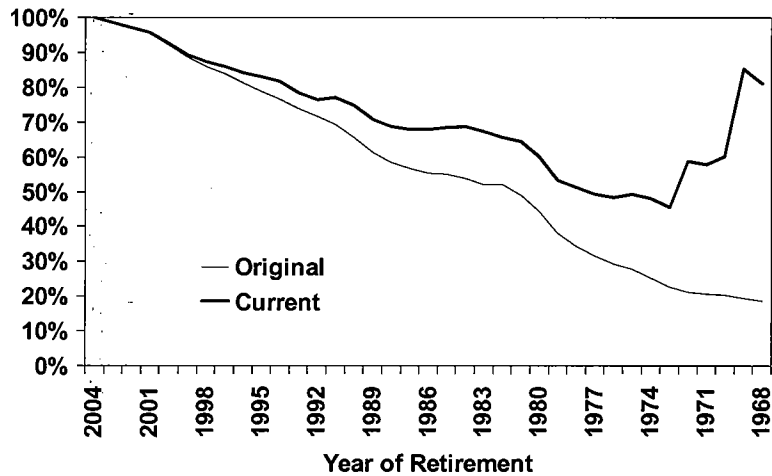
$$(\$1,189 / \$1,002) \times (369.0 / 562.3)$$

$$118.7\% \times 65.6\% = \underline{77.87\%}$$

## Purchasing Power of PERS 1 Service Benefits in 2004



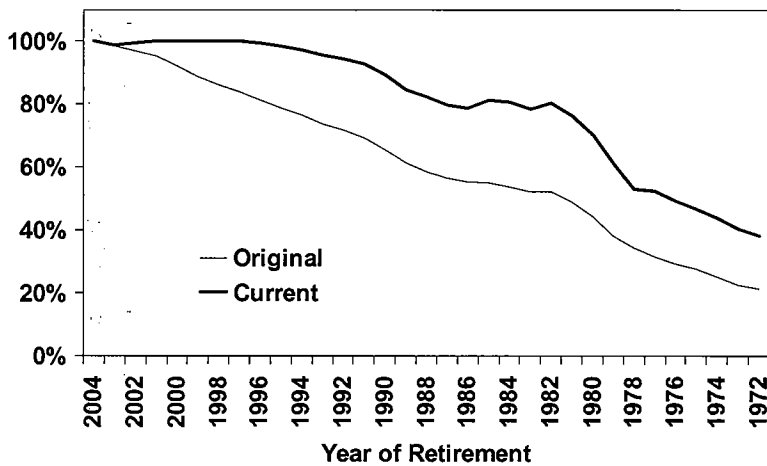
## Purchasing Power of TRS 1 Service Benefits in 2004



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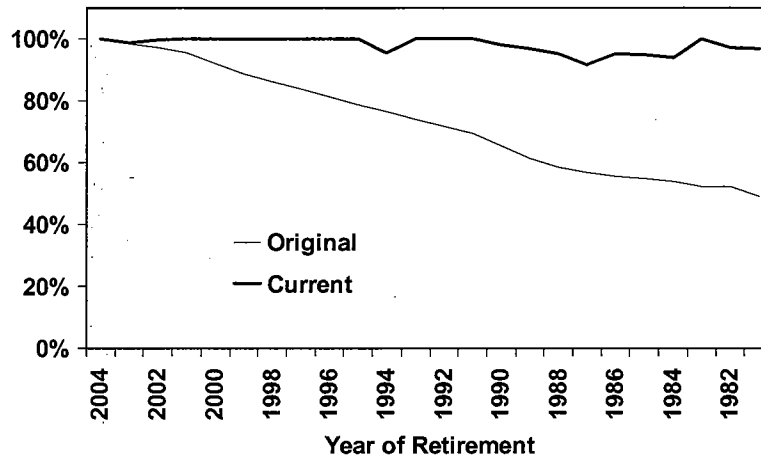
## Purchasing Power of WSPRS 1 Service Benefits in 2004



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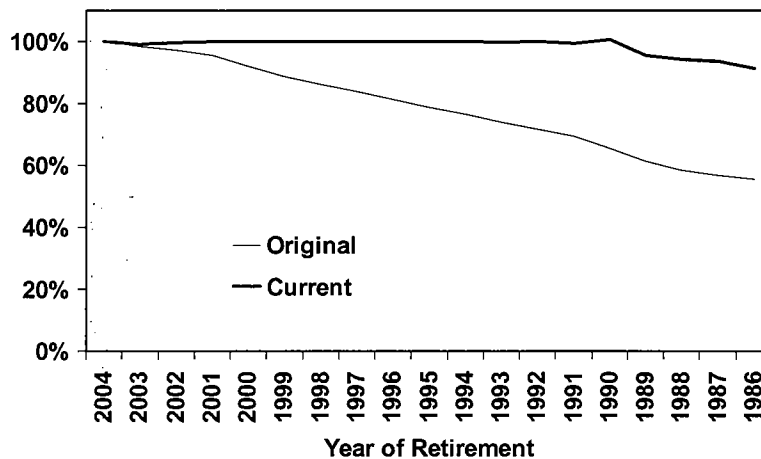
## Purchasing Power of PERS 2/3 Service Benefits in 2004



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## Purchasing Power of TRS 2/3 Service Benefits in 2004



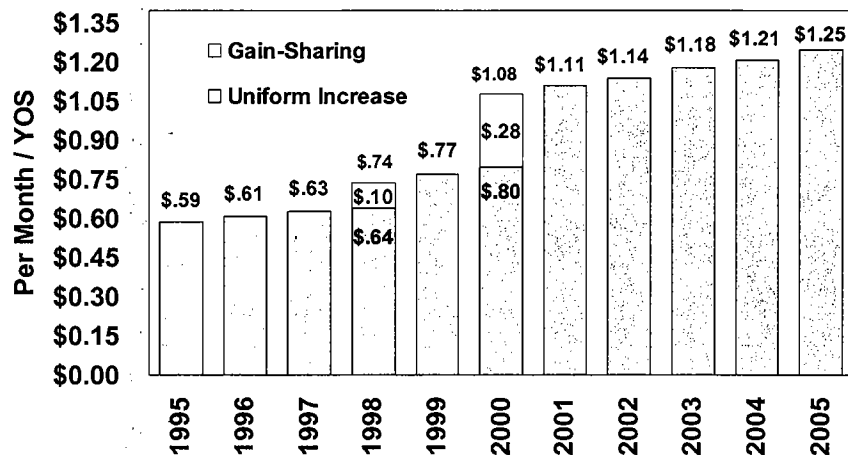
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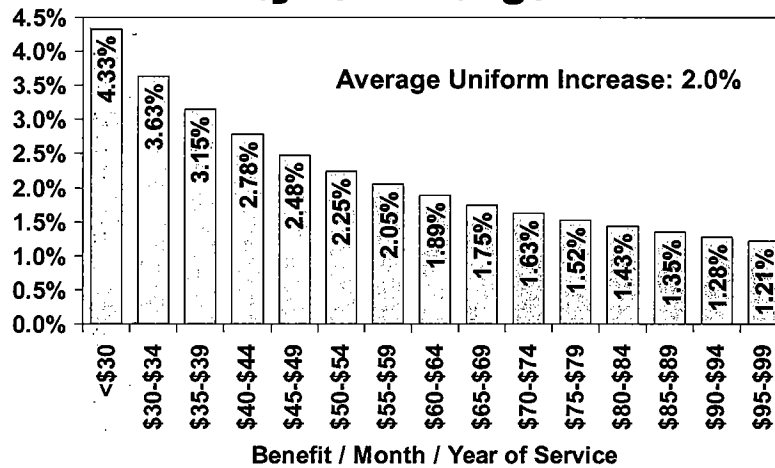
## Uniform Increase

- \$1.25 per month per year of service (July 1, 2005)
  - \$37.50 per month for member w/30 yos
- Began in 1995 at \$0.59
- Increases 3% per year
- Augmented by gain-sharing

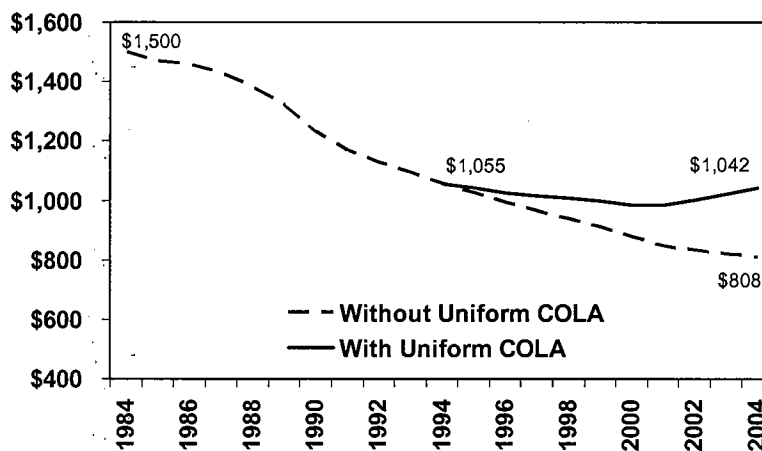
## PERS 1 & TRS 1 Uniform Increase Amount



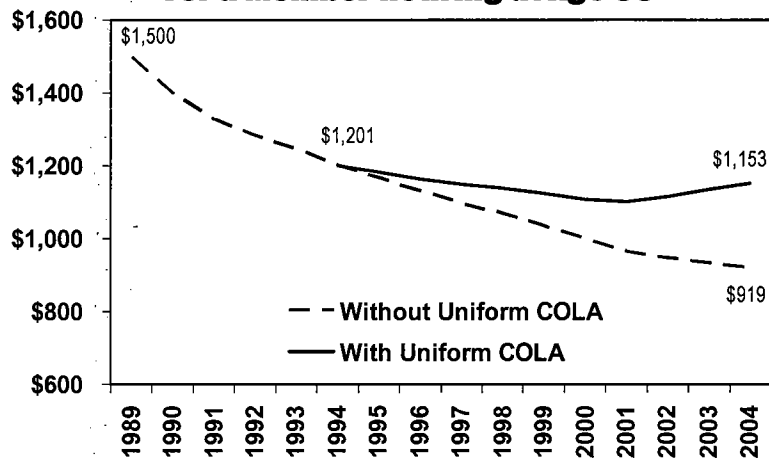
## Uniform COLA Percent Increase by Benefit Range



## Plan 1 Purchasing Power For a Member Retiring at Age 55



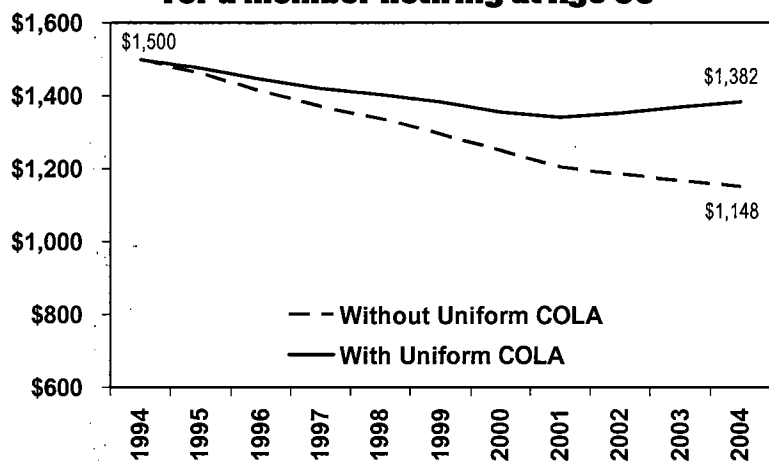
### Plan 1 Purchasing Power For a Member Retiring at Age 60



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### Plan 1 Purchasing Power For a member Retiring at Age 65



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## Comparison Systems

System	COLA
Cal PERS	2% (80% purchasing power min.)
Cal STRS	2% Simple (80% purchasing power min.)
Colorado PERA	3.5%
Florida (FRS)	3%
Idaho (PERSI)	CPI-based, 1% min, 6% max
Iowa (IPERS)	Simple increase, 3% max
Minnesota (MSRS)	CPI based, 2.5% max + invest surplus
Missouri (MOSERS)	80% of change in the CPI, 5% max
Ohio (OPERS)	CPI based, 3% max
Oregon PERS	CPI based, 2% max
Seattle (SCERS)	1.5% (60% purchasing power min.)

## Human Resource Impact

Loss of their benefit's purchasing power is one factor in retirees returning to work.

## **Current Efforts**

- Increase frequency of gain-sharing to include odd-numbered years
- Lower threshold for determining when gain-sharing can occur.
- Modify formula to reward those retired longest.
- All increase gain-sharing liability which is currently not recognized.

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## **Policy Constraints**

“... fund benefit increases for plan members over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service.”

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# Conclusion

- Loss of purchasing power can be gradual
- Modest inflation has large long-term effects
- Recognition of inflationary effects has spurred efforts
- Funding policies and liabilities may constrain future efforts

# **Federal Update – Social Security**

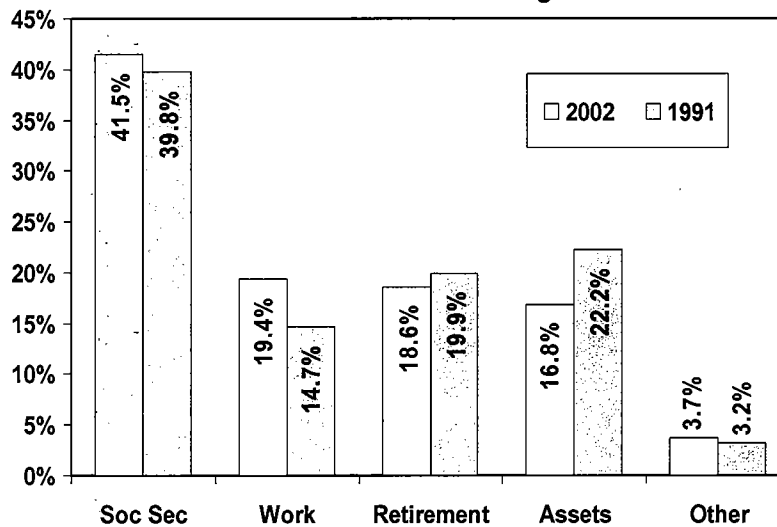
Laura Harper  
Senior Research Analyst/Legal

Select Committee on Pension Policy  
June 20, 2004

## **Three-Legged Stool**

- U.S. model for retirement
  - Social Security
  - Employer Pensions
  - Personal Savings
  - New “fourth leg”: income from work

**Figure 10**  
**Sources of Income After Age 65**



Source: Current Population Survey

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## **Status of Social Security Today**

- Today, Social Security is running a cash flow surplus of about \$70 billion annually.
- This is a “snapshot” in time.
- Current revenues are based on collection of 12.4% of payroll (6.2% employer and 6.2% employee; does not include Medicare).
- Tax rate is fixed while costs are rising.

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## **What SS is saying to America**

- Narrative on individual social security statement form discusses SS's future.
- "Social Security is facing serious future financial problems, and action is needed soon to make sure that the system is sound when today's younger workers are ready for retirement."

## **SS Trustees' 2005 Report**

- Annual tax revenues will fall below annual program costs in 2017.
- Projected point at which trust funds will be exhausted is 2041.
- Unfunded obligation over 75 years is equivalent to \$4 trillion in today's dollars.
- Projected deficit over 75 years is 1.92 percent of taxable future payroll.

## **Compare to 2004 Report**

- Reports are quite similar.
- Projected date of trust fund exhaustion moved up from 2042 to 2041.
- Size of actuarial deficit increased slightly.
- Both reports project 2017 as the date when benefit payments and expenses will exceed tax revenue.

## **Why are SS costs rising?**

- By 2041, the number of Americans 65 or older is expected to have doubled.
- Number of SS beneficiaries per 100 workers will rise from 30 to 54.
- By 2041, there will only be enough younger workers to pay about 74 cents for each dollar of scheduled benefits.
- These changes are due to the aging population and lower fertility rates.

## **Other factors**

- Unexpected increases in disability rolls: number of awards per 1000 rose from 3 in 1983 to 5 today.
- Worsening of economic assumptions in projecting liabilities: decline in assumed productivity.
- On the plus side, demographic assumptions have changed primarily due to higher mortality for women.

## **SS woes are felt worldwide**

- Most industrial nations (e.g. China, Germany, India) can't keep promises made under their pay-as-you-go systems.
- Why? Declining birthrates, more women in the workplace, rising divorce rates, changing economic patterns, rising budget deficits, earlier retirements and growing numbers of elderly who are living longer.



## **US Solvency goal: 1.92% of Pay**

- Proposals to reduce benefits.
- Proposals to increase revenues.
- Proposals to invest in the private sector.
- Combinations of elements from the above categories.

## **Benefit Reductions**

- Gradually increase the retirement age.
- Reduce or redefine the COLA.
- Reduce benefits for future retirees.
- Gradually cut benefits for workers over a certain income limit.

## **Revenue Increases**

- Raise payroll tax on workers and employers.
- Increase wages subject to social security tax (wage base).
- Tax SS benefits like pension benefits.
- Include all new state and local government workers in SS.

## **Investing in the Private Sector**

- Invest a percentage of the SS Trust Fund in private investments such as stocks.
- Create personal retirement accounts by diverting a percentage of payroll to private accounts.

## **Congress will decide....**

- You can pretend you are a federal policy maker by playing the “Social Security Game.”
- This game is brought to you by the American Academy of Actuaries.
- We will go to an internet link to play a game that lets you decide the trade-offs and find a solution that rings the “SS solvency bell”:  
[www.actuary.org/socialsecurity/](http://www.actuary.org/socialsecurity/).

## Resources, Federal Update - Social Security

"Your Social Security Statement Prepared Especially for Wanda Worker," March 31, 2005, Social Security website, [www.socialsecurity.gov/mystatement](http://www.socialsecurity.gov/mystatement) (click on Sample Statement).

"Little Change in Social Security Solvency: Trustees Recommend Timely Action," Social Security News Release, March 23, 2005, Social Security website, <http://www.ssa.gov/pressoffice/pr/trustee05-pr-alt.htm>.

"An Actuarial Perspective on the 2005 Social Security Trustees Report," American Academy of Actuaries, Issue Brief, April 2005.

"Just the Facts on Retirement Issues," Alicia H. Munnell, March 2005, Number 16, Center for Retirement Research at Boston College.

"Social security woes are felt worldwide," David R. Francis, Christian Science Monitor, May 26, 2005, [www.csmonitor.com/2005/0526/p17s01-cogn.htm](http://www.csmonitor.com/2005/0526/p17s01-cogn.htm).

"You Fix It!! Play the Social Security Game!" American Academy of Actuaries website, [www.actuary.org/socialsecurity/](http://www.actuary.org/socialsecurity/).

"President Bush Addresses the Projected Social Security Shortfall," Watson Wyatt Insider, June 2005, [www.watsonwyatt.com/us/pubs/insider/printable.asp?ArticleID=14742&Component](http://www.watsonwyatt.com/us/pubs/insider/printable.asp?ArticleID=14742&Component)

## Select Committee on Pension Policy

# Evaluation of 2005 Session

(June 15, 2005)

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During this segment of the orientation, staff suggests that members break into small groups and evaluate the success of the 2005 SCPP legislative proposals in light of the goals/priorities identified during last year's orientation.

### **Priorities from 2004 Orientation (in order of priority)**

- Rate-setting (contribution rate stability and adequacy)
- Balanced long-term management
- Age 65 retirement age in plans 2/3
- Purchasing power (recovery of lost purchasing power in PERS and TRS 1)

### **Groups**

Depending on the number of members in attendance, staff suggests that members break into the following small groups with the following assigned content:

- SCPP legislation that passed
- SCPP legislation that did not pass
- Non-SCPP legislation that did pass (optional group)

### **Evaluation**

Each group will be given approximately 30 minutes to discuss and evaluate the legislative proposals assigned to their group, in light of the committee's priorities from last year, and share their results with the entire committee. For consistency purposes, staff suggests that groups use a standard letter grading process (A, B, C, D, F) for evaluation and reporting. Each group will report their group's letter grade and explain how they reached their conclusions with the full group.

## SCPP legislation that passed

### Priorities from 2004 Orientation

- Rate-setting (contribution rate stability and adequacy)
- Balanced long-term management
- Age 65 retirement age in plans 2/3
- Purchasing power (recovery of lost purchasing power in PERS and TRS 1)

### SCPP Bills that Passed

1. HB 1321 - Part-time ESAs (Fromhold).
2. HB 1323 - Executive Committee Membership (Conway).
3. HB 1319 - LEOFF 1 Ex-spouse Survivor Benefit (Conway).
4. HB 1325 - Interruptive Military Service (Conway).
5. HB 1327 - TRS Service Credit Purchase (Alexander).
6. HB 1328 - LEOFF 1 Disability Boards (Conway).
7. HB 1329 - LEOFF 1 Survivor Benefits (Conway).
8. HB 1330 - Technical Corrections (Conway).

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#### Group Members

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#### Grade

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#### Reason(s)

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## SCPP legislation that did not pass

### Priorities from 2004 Orientation

- Rate-setting (contribution rate stability and adequacy)
- Balanced long-term management
- Age 65 retirement age in plans 2/3
- Purchasing power (recovery of lost purchasing power in PERS and TRS 1)

### SCPP Bills that did not Pass

1. HB 1317 / SB 5341 - WSP Rate Stability (Conway, Fraser).
2. HB 1318 - Age 70½; Opt in / Opt out (Crouse).
3. SB 5517 - Plan 3 Vesting (Doumit).
4. SHB 1320 - Plan 3 Vesting (Alexander).
5. HB 1322 / SB 5489 - TRS Out-of-State Service Credit (Fromhold, Regala).
6. HB 1324/SB 5246 - Pension Funding and Gain-sharing (Fromhold, Fraser).
7. SB 5244 - Post-retirement Employment (Fraser).
8. SHB 1326 - Post-retirement Employment (Conway).

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### Group Members

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### Grade

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### Reasons

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## Non-SCPP legislation that did pass (optional group)

### Priorities from 2004 Orientation

- Rate-setting (contribution rate stability and adequacy)
- Balanced long-term management
- Age 65 retirement age in plans 2/3
- Purchasing power (recovery of lost purchasing power in PERS and TRS 1)

### Non-SCPP Bills that Passed

1. HB 1269- Service Credit Purchase (LEOFF 2 Board - Conway).
2. SB 5135 - Volunteer Fire Relief Fund Contributions (Kastama).
3. SSB 5497 - Terminally Ill Members (Delvin).
4. SHB 1938 - PERS 1 Retire on Active Military Service (Hinkle).
5. SSB 5112 - Veterans Afghanistan and Persian Gulf War (Shin).
6. SB 5522 - Service Credit Purchase, Injury (Franklin).
7. ESHB 1044 - Pension Funding (Sommers).
8. HB 1270 - Re-employment (LEOFF 2 Board - Curtis).
9. SB 5615 - Disability (LEOFF 2 Board - Parlette)
10. SHB 1936 - EMTs into LEOFF 2 (Upthegrove).

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### Group Members

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### Grade

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### Reason(s)

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# Select Committee on Pension Policy

## 2005 Session Update

(June 15, 2005)

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### SCPP Bills that Passed

1. **HB 1321 - Part-time ESAs (Fromhold)**

This bill impacts the Teachers' Retirement System (TRS) Plan 1 by allowing Certified Educational Staff Associates (ESAs) to annualize their salaries when calculating their average final compensation so they may receive proportionate retirement benefits.

**Fiscal Impact:** Insufficient to impact contribution rates.

**Status:** Governor signed on April 12<sup>th</sup> as Chapter 23 Laws of 2005.

**Effective Date:** 90 days after session (July 24, 2005).

2. **HB 1323 - Executive Committee Membership (Conway)**

This bill adds one retiree representative to the Executive Committee of the Select Committee on Pension Policy. In addition, this bill deletes from statute the provision requiring the director of the office of financial management to serve as a member of the Executive Committee in alternate years.

**Fiscal Impact:** None.

**Status:** Governor signed on April 12<sup>th</sup> as Chapter 24 Laws of 2005.

**Effective Date:** 90 days after session (July 24, 2005).

3. **HB 1319 - LEOFF 1 Ex-spouse Survivor Benefit (Conway)**

This bill impacts the Law Enforcement Officer's and Fire Fighter's Retirement System Plan 1 (LEOFF 1) by allowing all ex-spouses of LEOFF 1 members, who have been provided benefits under any court-approved property settlement agreement incident to the divorce of the member and ex-spouse, to continue receiving those benefits after the death of the member. The bill will also allow those ex-spouses whose benefit was suspended upon a member's death to resume their benefit.

**Fiscal Impact:** There is a cost, but the LEOFF 1 Plan is in surplus, so there is no impact on contribution rates.

**Status:** Governor signed on April 15<sup>th</sup> as Chapter 62 Laws of 2005.

**Effective Date:** 90 days after session (July 24, 2005).

4. **HB 1325 - Interruptive Military Service (Conway)**

This bill impacts the Public Employees' Retirement System (PERS), the School Employees' Retirement System (SERS), the Teachers' Retirement System (TRS), the Law Enforcement Officers' and Firefighters' Retirement System Plan 2 (LEOFF 2), the Washington State Patrol Retirement System (WSPRS), and the Public Safety Employees' Retirement System (PSERS) by authorizing interruptive military service credit for employees who cannot return to public employment due to death or total disability while serving in the uniformed services. Service credit maybe purchased by a disabled member or survivor(s) of a deceased member for interruptive military service credit up to the date of death or disability.

**Fiscal Impact:** Not sufficient to increase contribution rates.

**Status:** Governor signed on April 15<sup>th</sup> as Chapter 64 Laws of 2005.

**Effective Date:** 90 days after session (July 24, 2005).

5. **HB 1327 - TRS Service Credit Purchase (Alexander)**

This bill impacts TRS 2 and TRS 3 by allowing eligible members, at the time of retirement, to purchase up to five years of additional service credit. The service credit can be used to help offset the benefit reductions for early retirement.

Eligible members would include only members who are eligible for early retirement or alternate early retirement under the provisions of the system. Additional service credit purchased under this bill does not constitute membership service and, therefore, cannot be used to qualify for retirement.

A member purchasing additional service credit under this bill may pay the full actuarial cost of the service credit with a lump sum payment, eligible rollover, direct rollover, and/or trustee-to-trustee transfer from an eligible retirement plan (at the time of retirement).

**Fiscal Impact:** None.

**Status:** Governor signed on April 15<sup>th</sup> as Chapter 65 Laws of 2005.

**Effective Date:** July 1, 2006.

6. **HB 1328 - LEOFF 1 Disability Boards (Conway)**

This bill impacts LEOFF 1 by addressing jurisdiction, disability board membership and eligibility to vote for member representatives on the board. The legislation provides that the jurisdiction of the county disability boards applies to all members employed by or retired from an employer within the county and not employed by a city in which a disability board is established. It also clarifies that to serve on the county disability board, a fire fighter or law enforcement officer must be employed by or retired from an employer within the county and not be employed by or retired from a city in which a disability board is established. Those voting for employee representatives on the county disability board must be employed by or retired from an employer within the county and not employed by or retired from a city in which a disability board is established. Finally, the bill addresses the election of the firefighter and law enforcement officer positions on the board and adds the following new provisions: a) if there are no firefighters eligible to vote, a second eligible member representative shall be elected by the law enforcement officers eligible to vote, and b) if there are no law enforcement officers eligible to vote, a second member representative shall be elected by the fire fighters eligible to vote.

**Fiscal Impact:** None.

**Status:** Governor signed on April 15<sup>th</sup> as Chapter 66 Laws of 2005.

**Effective Date:** Immediately upon signing (April 15, 2005).

7. **HB 1329 - LEOFF 1 Survivor Benefits (Conway)**

This bill impacts LEOFF 1 by amending the plan provision relating to survivor benefits under RCW 41.26.164, which provides an optional reduced retirement allowance with survivor benefits to spouses that are ineligible for survivor benefits under other plan provisions. The bill changes one of the criteria for allowing a member to choose this retirement option. Under this legislation, the member may select the option as long as there is some portion of his or her retirement benefit

that is not subject to a property division pursuant to a domestic relations order. Currently, any division would defeat the member's ability to select this option.

**Fiscal Impact:** None.

**Status:** Governor signed on April 15<sup>th</sup> as Chapter 67 Laws of 2005.

**Effective Date:** Immediately upon signing (April 15, 2005).

8. **HB 1330 - Technical Corrections (Conway)**

This bill impacts TRS, PSERS, SERS, and PERS by making technical corrections to incorrect cross-references, inadvertent omissions of necessary references, and accidental duplication of statutory language. The bill also codifies current administrative practices, and repeals obsolete or unnecessary sections.

**Fiscal Impact:** None.

**Status:** Governor signed on May 9<sup>th</sup> as Chapter 327 Laws of 2005.

**Effective Date:** 90 days after session (July 24, 2005).

## **Non-SCPP Bills that Passed**

1. **HB 1269 - Service Credit Purchase (LEOFF 2 Board - Conway)**

This bill impacts LEOFF 2 by permitting members who are eligible to retire to make a one-time purchase of up to five years of additional service credit. The cost of the additional service credit is the actuarial equivalent value of the resulting increase in the member's benefit. A member may pay all or part of the cost with a lump sum payment, eligible rollover, direct rollover, or trustee-to-trustee transfer from an eligible retirement plan. The bill directs the department of retirement systems to promulgate rules to ensure IRS compliance. The effective date is July 1, 2006.

**Fiscal Impact:** None.

**Status:** Governor signed on April 12<sup>th</sup> as Chapter 21 Laws of 2005.

**Effective Date:** July 1, 2006.

2. **SB 5135 - Volunteer Fire Relief Fund Contributions (Kastama)**

This bill impacts the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund by clarifying the definition of "fire fighter" and "emergency worker" so as to prevent part-time PERS firefighters and emergency workers from earning both a PERS benefit and a Volunteer Fire benefit for the same job. The bill also increases the annual fee paid by each municipal corporation for the purpose of affording relief (or medical) benefits for volunteer fire fighters from ten dollars to thirty dollars per member. Finally, the bill allows the State Board for Volunteer Fire Fighters and Reserve Officers to seek recovery from a third party if a volunteer is injured.

**Fiscal Impact:** Local employer contributions will increase to thirty dollars per member, but there is no impact on state funding.

**Status:** Governor signed on April 13<sup>th</sup> as Chapter 37 Laws of 2005.

**Effective Date:** 90 days after session (July 24, 2005).

3. **SSB 5497 - Terminally Ill Members (Delvin)**

This bill impacts PERS 2/3, SERS 2/3, and TRS 2/3 by allowing members who are diagnosed with a terminal illness to remove themselves from their retirement plan. Such members must be examined by or under the direction of a medical advisor who must certify in writing that they suffer from a terminal illness and have a life expectancy of five years or less. The director of the retirement systems must then concur in the recommendation of the medical advisor. Such terminally ill members would not make contributions nor earn service credit.

The substitute bill removed language from sections 5 and 6 of the original bill that would have allowed a member to receive a refund of contributions while still employed – an in-service distribution.

**Fiscal Impact:** None.

**Status:** Governor signed on April 21<sup>st</sup> as Chapter 131 Laws of 2005.

**Effective Date:** Immediately upon signing (April 21, 2005).

4. **SHB 1938 - PERS 1 Retire on Active Military Service (Hinkle)**

This bill impacts PERS 1 by allowing members who have completed 25 years of creditable service, who would have otherwise become eligible for retirement while serving honorably in the armed forces, to receive service credit for such honorable military service without returning to covered employment. The bill also updates the definition of "veteran" to include Operation Noble Eagle, Operation Enduring Freedom and Operation Iraqi Freedom.

**Fiscal Impact:** Insufficient to impact contribution rates.

**Status:** Governor signed on May 3<sup>rd</sup> as Chapter 247 Laws of 2005.

**Effective Date:** Immediately upon signing (May 3, 2005).

5. **SSB 5112 - Veterans Afghanistan and Persian Gulf War (Shin)**

This bill impacts PERS 1 by amending the definition of "veteran" in RCW 41.04.005 for the purpose of determining PERS 1 military service credit. The amended definition adds the following persons within the definition: (a) persons who served in the Persian Gulf combat zone as part of Operation Iraqi Freedom, and (b) persons who served in southern or central Asia as part of Operation Enduring Freedom.

**Fiscal Impact:** None.

**Status:** Governor signed on May 3<sup>rd</sup> as Chapter 255 Laws of 2005.

**Effective Date:** 90 days after session (July 24, 2005).

6. **SB 5522 - Service Credit Purchase, Injury (Franklin)**

This bill impacts all plans in PERS by allowing members who are injured while acting in the course of employment to receive up to two years of lost service credit. A member seeking lost service credit must apply for re-employment within ninety days of when the member is able to return to work and benefits under Title 51 (Industrial Insurance) have ceased. The member must also make the required employee contributions within five years of resumption of service or prior to retirement, whichever comes sooner. If the member does not restore contributions within that time frame, the member must pay the actuarial value of the resulting increase in the benefit.

**Fiscal Impact:** None.

**Status:** Governor signed on May 10<sup>th</sup> as Chapter 363 Laws of 2005.

**Effective Date:** 90 days after session (July 24, 2005).

7. **ESHB 1044 - Pension Funding (Sommers)**

This bill impacts the PERS 1, PERS 3, TRS 1, TRS 3, and SERS 3 by delaying recognition of the cost of future gain-sharing benefits until the 2007-09 biennium.

The bill continues the suspension of payments to the PERS 1 and TRS 1 unfunded actuarial accrued liability (UAAL) for the 2005-07 biennium. This suspension impacts the contribution rates for PERS, TRS, SERS, and Public Safety Employees' Retirement System (PSERS) employers.

This bill also impacts PERS, SERS and TRS by establishing a 4-year phase-in of employer and Plan 2 member rates for the 2005-07 and 2007-09 biennia. The rates under the phase-in are lower in the 2005-07 biennium than required by the 2003 actuarial valuation and will be higher in the 2007-09 biennium than required by the projected 2005 actuarial valuation.

The bill specifies the following schedule of contribution rates for the 2005-2007 biennium (the first two years of the 4-year phase-in schedule):

Contribution Year*	PERS		TRS		SERS	
	Employer**	Plan 2 Member	Employer**	Plan 2 Member	Employer**	Plan 2 Member
2005-2006	2.44%	2.25%	2.92%	2.48%	2.94%	2.75%
2006-2007	3.69%	3.50%	3.44%	3.00%	3.94%	3.75%

\*PERS rates effective 7/1-6/30, TRS & SERS rates effective 9/1-8/31.

\*\* Employer rates include administrative expense rate of 0.19%.

By September 30, 2006, the Pension Funding Council is required to adopt contribution rates to complete the 4-year phase-in schedule, adjusted for any material changes in benefits or actuarial assumptions, methods or experience.

The bill also changes the statutory policy goal that long-term contribution rates be "predictable" and a "relatively constant" proportion of state budgets, to a standard requiring that they be a relatively "predictable" proportion of state budgets.

Lastly, the bill calls for the Select Committee on Pension Policy (SCPP) to study the options available to the legislature for addressing the liability associated with future gain-sharing benefits. The SCPP shall report the findings and recommendations of its study to the legislative fiscal committees by no later than December 15, 2005.

**Fiscal Impact:** Saves all employers \$892.9 million in 2005-07, costs all employers an additional \$219.7 million in 2007-09, and costs all employers an additional \$904.4 million through 2030.

**Status:** Governor signed on May 10<sup>th</sup> as Chapter 370 Laws of 2005. This bill was necessary to implement the budget.

**Effective Date:** 90 days after session (July 24, 2005) - except sections 1, 3, and 6, which become effective July 1, 2005; and sections 2 and 4, which become effective July 1, 2006.

8. **HB 1270 - Re-employment (LEOFF 2 Board - Curtis)**

This bill impacts LEOFF 2 by amending the so-called "estoppel rule" within the General Provisions Chapter of Title 41 to create an exception for those receiving a LEOFF 2 retirement allowance. This exception would allow those who continue in public employment following retirement from LEOFF 2 to establish membership in any of the state retirement systems administered by the Department of Retirement Systems. (Note: LEOFF 2 retirees are still subject to benefit suspension under RCW 41.26.500.)

**Fiscal Impact:** None.

**Status:** Governor signed on May 10<sup>th</sup> as Chapter 372 Laws of 2005, Partial Veto (vetoed emergency clause.)

**Effective Date:** 90 days after session (July 24, 2005) -- except section 2 which becomes effective July 1, 2006.

9. **SSB 5615 - Disability (LEOFF 2 Board - Parlette)**

This bill impacts LEOFF 2 by removing the actuarial reduction for a duty disability benefit, and the duty disability benefit is no longer limited to the value of the non-duty disability benefit.



**Fiscal Impact:** Total employer costs of \$4.9 million in 2005-07, \$5.9 million in 2007-09, and \$106.8 million through 2030.

**Status:** Governor signed on May 13<sup>th</sup> as Chapter 451 Laws of 2005.

**Effective Date:** Immediately upon signing (May 13<sup>th</sup>, 2005).

10. **SHB 1936 - EMTs into LEOFF 2 (Upthegrove)**

This bill impacts LEOFF 2 and PERS by giving PERS members employed on a full-time fully compensated basis as emergency medical technicians the option of remaining in PERS, joining LEOFF 2 and becoming dual members of PERS and LEOFF 2, or joining LEOFF 2 and transferring their service credit earned as emergency medical technicians into LEOFF 2.

To move eligible past service credit from PERS to LEOFF 2, an employee is required to make a payment to the retirement system to make up for the difference in contributions, plus interest, that the employee would have made had they been in LEOFF 2 for the period of PERS service that is eligible for transfer. This payment must be made no later than 5 years from the effective date of the member's election to transfer service. The employee's PERS contributions plus interest, and an equal amount of employer contributions, would be moved from PERS to LEOFF 2 upon completion of the employee's required differential payment, but no earlier than 5 years after the effective date of the member's election to transfer.

When members elect to transfer their PERS service credit into LEOFF, their employers will be responsible to pay an amount sufficient to ensure that the contribution level to LEOFF 2 will not increase due to the transfer of the past service. The employers payments must be made within 5 years of the completion of the employees' payments.

**Fiscal Impact:** Total employer cost of \$0.4 million in 2005-07, \$0.4 million in 2007-09, and \$9.4 million through 2030.

**Status:** Governor signed on May 13<sup>th</sup> as Chapter 459 Laws of 2005.

**Effective Date:** 90 days after session (July 24, 2005).

## SCPP Bills that did not Pass

### 1. **HB 1317 / SB 5341 - WSP Rate Stability (Conway, Fraser)**

This bill would have impacted the Washington State Patrol Retirement System (WSPRS) by changing the contribution rate setting formula. The bill would have established member contribution rates at 1/3 of the total cost of the system, or 7 percent, whichever is less. However, in no event would the member rate be less than 2 percent. The employer would have then been responsible for paying the remaining costs of the system.

**Fiscal Impact:** Total employer cost of \$2.4 million in 2005-07, \$4.8 million in 2007-09, and \$123.3 million through 2030.

**Status:** Did not move from Appropriations Committee, did not receive a hearing in Ways and Means.

**Effective Date:** July 1, 2005.

### 2. **HB 1318 - Age 70½; Opt in / Opt out (Crouse)**

This bill would have impacted PERS 2/3, SERS 2/3, and TRS 2/3 by allowing members who retire on or after age seventy and one-half, and who fulfill the 1 month separation requirement, to return to work without restriction. Upon receipt of retirement benefits such an individual would cease active membership and no longer make contributions nor receive service credit. Current state elected and appointed officials would have been exempt from this act unless they left elected office, or were re-elected after the effective date of the act.

The bill would have allowed state elective officials the option to continue or resume membership, and if otherwise eligible, retire and receive their retirement allowance at the beginning of each term of office. A state elected official member who chose to end membership at the beginning of a term of office would have neither made contributions nor earned service credit for the duration of that term.

**Fiscal Impact:** Total employer cost of \$4.6 million in 2005-07, \$5.5 million in 2007-09, and \$82.8 million through 2030.

**Status:** Did not move from Appropriations Committee.

**Effective Date:** 90 days after session.

3. **SHB 1320 - Plan 3 Vesting (Alexander)**

This bill would have impacted TRS 3, SERS 3, and PERS 3 by lowering the vesting period for the defined benefit portion of the plans. Plan 3 members would have been vested after ten years of service, or after five years if 12 months of that service was earned after attaining age 44. In other words, this bill would have lowered the defined benefit vesting period from ten years to five years for those members who were age 45 and older.

**Fiscal Impact:** Total employer cost of \$3.8 million in 2005-07, \$5.0 million in 2007-09, and \$166.6 million through 2030.

**Status:** Passed House, by resolution returned to House Rules for 3<sup>rd</sup> reading.

**Effective Date:** 90 days after session.

4. **SB 5517 - Plan 3 Vesting (Doumit)**

This bill would have impacted TRS 3, SERS 3, and PERS 3 by lowering the vesting period for the defined benefit portion of the plans from ten years of service to five years of service.

**Fiscal Impact:** Total employer cost of \$8.1 million in 2005-07, \$10.7 million in 2007-09, and \$368.2 million through 2030.

**Status:** Did not receive a hearing in Ways and Means.

**Effective Date:** 90 days after session.

5. **HB 1322 / SB 5489 - TRS Out-of-State Service Credit (Fromhold, Regala)**

This bill would have impacted TRS 2/3 by allowing members to make a one-time purchase of up to seven years of service credit for public education experience (state and federal) outside the Washington State Retirement System. The public education experience claimed must have been covered by a governmental retirement or pension plan, and the member must not have been receiving a benefit or eligible to receive an unreduced retirement benefit that included the service to be purchased. To take advantage of this provision, a member must have had at least five and less than ten years of service credit in TRS. The purchase could not have resulted in the purchase of service credit that was greater than the member's total years of creditable service in the retirement system.

**Fiscal Impact:** Total employer cost of \$4.5 million in 2005-07, \$5.1 million in 2007-09, and \$130.4 million through 2030.

**Status:** Did not move from Appropriations, did not receive a hearing in Ways and Means.

**Effective Date:** January 1, 2006.

6. **HB 1324 / SB 5246 - Pension Funding and Gain-sharing (Fromhold, Fraser)**

This bill was a combination of three SCPP Legislative proposals – the Deferred Rate Increases, Plan 1 COLA/Gain-sharing and Plan 3 Gain-sharing.

*Deferred Rate Increases.* These sections of the bill would have impacted the PERS, TRS, SERS, and PSERS by establishing required basic employer and state contribution rates and required Plan 2 member contribution rates. The four-year schedule of annual contribution rates would have differed from the normal biennial process for setting rates and departed from the usual formula for allocating contributions among the plans. For PERS and SERS, the rates would have been lower in the first two years than required by the 2003 actuarial valuation and higher in the second two years than required by the projected 2005 actuarial valuation. For TRS, the rates would have been lower in the first year of each biennium and higher in the second year. The schedule would have allowed for a gradual phase-in of required increases in contribution rates.

The bill would have established minimum basic employer and state contribution rates and required Plan 2 member contribution rates to promote rate stability over time. These minimum rates would have functioned as a "floor" beneath which contribution rates would not drop.

The pension funding council would have been required to review the appropriateness of these rates and recommend to the legislature any adjustments as may be needed due to material changes in benefits or actuarial assumptions, methods or experience.

*Plan 1 COLA/Gain-sharing.* These sections of the bill would have impacted the Public Employees' Retirement System Plan 1 (PERS 1) and the Teachers' Retirement System Plan 1 (TRS 1) by:

- Enhancing the annual increase amount by 20 cents. This would have raised the July 1, 2005 amount from \$1.25 to \$1.45.
- Establishing a \$1,000 alternative minimum benefit for members with 20 years of service who have been retired 25 years.
- Establishing a 3% annual escalator for both \$1,000 alternative minimum benefit provisions.
- Amending Uniform COLA eligibility requirements to include all retirees who have been retired one year and will have attained age 66 by December 31st of the calendar year in which the increase is given.
- Repealing Plan 1 gain-sharing.

*Plan 3 Gain-sharing.* These sections of the bill would have eliminated Plan 3 gain-sharing for TRS and PERS. Existing Plan 3 gain-sharing provisions would have been replaced with a rule of 90 that uses an age 60 minimum, and that had unreduced benefits for prospective service only in TRS 2/3, SERS 2/3 and PERS 2/3. In addition, Plan 2/3 choice would have been added for new hires in TRS and SERS (same structure for choice as in PERS). The legislation would have amended Plan 3 gain-sharing for SERS by providing an annual contribution of \$10 times years of service to the defined contribution accounts of existing SERS 3 members – the \$10 amount would increase by 3% per year. Future SERS 3 members would not have been eligible for this annual contribution.

The trade-off package would have removed the Plan 3 provision that allows members to change their employee contribution rate by notifying their employer in writing during the month of January. The bill also would have amended the section of the actuarial funding chapter addressing employee contributions in order to make it consistent with the changes to gain-sharing.

**Fiscal Impact:** Total employer savings of \$458.6 million in 2005-07, total employer cost of \$94.0 million in 2007-09, and savings of \$4,495.7 million through 2030.

**Status:** Did not move from Appropriations, did not receive a hearing in Ways and Means.

**Effective Date:** July 1, 2005.

7. **SB 5244 - Post-retirement Employment (Fraser)**

This bill would have impacted TRS 1 and PERS 1 by adding the same general hiring qualifications to TRS 1 as currently exist for PERS 1 retirees who seek to work in excess of 867 hours annually. Those would have included a prohibition of any written or verbal agreement to return to work with the same employer. Under the legislation, a TRS 1 separation from service that was pursuant to such an agreement would have been nullified and would have constituted a potential misdemeanor violation of the statute entitled "Penalties for False Statements." Further, TRS 1 employers would have been subject to certain record-keeping requirements when hiring retirees, including documentation of the need to hire the retirees and records of the actual hiring process. The language for these requirements largely tracks that of the existing PERS 1 statute.

The proposed legislation also would have required both PERS and TRS Plan 1 employers to hire retirees pursuant to a written policy. In the proposed legislation, the length of separation requirement (between retirement and re-employment) for working beyond 867 hours would have been specified for TRS 1 as 45 days (rather than the 90 days already in effect for PERS 1.) Also, this bill would have created a new cumulative total limit for TRS 1 of 3,165 hours worked over 867 (from no cumulative total limit), and a new cumulative total limit for PERS 1 of 3,165 hours worked over 867 (from a 1900-hour cumulative total limit). The new cumulative limits would have started anew as of the effective date of the bill, which would have been January 1, 2006. Finally, the contractual right to post-retirement employment in TRS 1 would have been expanded from 525 hours per year to 867 hours.

**Fiscal Impact:** Indeterminate.

**Status:** Did not pass out of Ways and Means.

**Effective Date:** January 1, 2006.

8. **SHB 1326 - Post-retirement Employment (Conway)**

This bill would have impacted TRS 1 and PERS 1 by adding the same general hiring qualifications to TRS 1 as currently exist for PERS 1 retirees who seek to work in excess of 867 hours annually. Those would have included a prohibition of any written or verbal agreement to return to work with the same employer. Under the legislation, a TRS 1 separation from service that was pursuant to such an agreement would

have been nullified and would have constituted a potential misdemeanor violation of the statute entitled "Penalties for False Statements." Further, TRS 1 employers would have been subject to certain record-keeping requirements when hiring retirees, including documentation of the need to hire the retirees and records of the actual hiring process. The language for these requirements largely tracks that of the existing PERS 1 statute.

The proposed legislation also would have required both PERS and TRS Plan 1 employers to hire retirees pursuant to a written policy. In the proposed legislation, the length of separation requirement (between retirement and re-employment) for working beyond 867 hours would have been specified for TRS 1 as 45 days (rather than the 90 days already in effect for PERS 1.) Also, this bill would have created a new cumulative total limit for TRS 1 of 1,900 hours worked over 867 (from no cumulative total limit), and a new cumulative total limit for PERS 1 of 3,165 hours worked over 867 (from a 1900-hour cumulative total limit). The new cumulative limits would have started anew as of the effective date of the bill, which would have been January 1, 2006. Finally, the contractual right to post-retirement employment in TRS 1 would have been expanded from 525 hours per year to 867 hours.

**Fiscal Impact:** Indeterminate.

**Status:** Passed the House, by resolution returned to House Rules for 3<sup>rd</sup> reading.

**Effective Date:** January 1, 2006.

## Non-SCPP Bills that did not Pass

### 1. **HB 1043 - Gain-Sharing (OFM - Sommers)**

This bill would have impacted the PERS, TRS and SERS by making gain-sharing distributions discretionary with the legislature. The bill also would have codified a funding approach for gain-sharing that delayed recognition of gain-sharing liabilities until after they occurred. (All other material liabilities of the pension systems are pre-funded.) The proposed legislation would have provided that for benefit increases resulting from gain-sharing, the basic contribution rate shall include the cost of the increases beginning with the next actuarial valuation after the effective date of the increase.

**Fiscal Impact:** Total employer savings of \$340 million in 2005-07, total employer savings of \$387.6 million in 2007-09, and total employer costs of \$1,998.4 million through 2030.

**Status:** Did not pass out of the Appropriations Committee.

**Effective Date:** July 1, 2005.

2. **HB 1520 / SB 5520 - Plan 2 Post-Employment PEBB (Cody, Keiser)**

This bill would have impacted PERS 2, SERS 2, TRS 2 by allowing members who separated and were at least age 55 and had at least 10 years of service to continue to participate in their employers' insurance plans and contracts if that participation was selected immediately upon separation from employment. Eligibility for participation would have been prospective for SERS 2 and TRS 2 members who separated, but retroactive for PERS 2 members who had separated since March 1, 2002.

**Fiscal Impact:** No pension fund impact.

**Status:** Did not receive a hearing in either Appropriations or Ways and means

**Effective Date:** 90 days after session

3. **HB 1522 / SB 5521 - Military Service Credit (Hunt, Rasmussen)**

This bill would have impacted PERS 2, SERS 2, and TRS 2 by deleting existing provisions concerning interruptive military service credit and replacing them with the same provisions for both interruptive and prior military service credit as are currently found in PERS 1. In addition, a provision would have been added preventing TRS 2, SERS 2, and PERS 2 members from receiving military service credit if they were receiving full military retirement benefits.

**Fiscal Impact:** Total employer cost of \$14 million in 2005-07, \$14.7 million in 2007-09, and \$181 million through 2030.

**Status:** Was forwarded from Senate Government Operations & Elections Committee, did not receive a hearing in Ways and Means, and did not move from Appropriations.

**Effective Date:** 90 days after session



4. **HB 1564 - WSP Mandatory Retirement Age (Lovick)**

This bill would have impacted the Washington State Patrol Retirement System (WSPRS) by increasing the mandatory retirement age from sixty to sixty-one. Members who reached age sixty-one would have been retired on the first day of the calendar month next succeeding that in which said member had attained the age of sixty. The age 61 retirement age would not have applied to the Chief of the Washington State Patrol.

**Fiscal Impact:** Total employer savings of \$0.1 million in 2005-07, \$0.1 million in 2007-09, and \$1.9 million through 2030.

**Status:** Was not forwarded from Appropriations.

**Effective Date:** 90 days after session

5. **HB 1594 - SIB Growing Business Fund (Linville)**

This bill would have impacted the State Investment Board (SIB), whose members are trustees of the assets of public retirement funds. This bill would have mandated the creation of a \$500 million account to be maintained separately from other money invested by the board. Investments from this account would have been made in start-up and expanding businesses based in Washington. While assets would have been invested according to existing primary objectives and criteria, the bill would have required that for these funds, assets would have been diversified across different industry sectors and regions of the state using specified priorities for start-up and expanding Washington-based businesses.

In selecting one or more managers for investing funds within the separate account the Board would have been required to consider the company's physical and employment presence in Washington as well as a demonstrable ability to find investment opportunities in communities throughout the state. Additionally, the SIB or its designees would have been required to include in their statement of investment principles the extent, if at all, to which social, environmental, or ethical considerations were taken into account in their selection, retention, and realization of investments; and their policy, if any, in relations to the exercise of rights attaching to investments (including voting rights).

**Fiscal Impact:** Indeterminate. The following costs illustrate a 0.10% reduction in the assumed rate of annual investment return from 8.00% to 7.9%: total employer cost of \$96.8 million in 2005-07, \$108.8 million in 2007-09, and \$1,715.5 million through 2030.

**Status:** Was not forwarded from the Economic Development, Agriculture & Trade Committee.

**Effective Date:** 90 days after session

6. **HB 1843/SB 5695 - TRS 1 Prior Military Service Credit (Hunt, Sheldon)**

This bill would have allowed members of TRS 1 to receive service credit for service in the armed forces that was performed prior to retirement system membership under the following conditions: the member must have completed 25 years of creditable service, the total number of military service credit from all sources does not exceed 5 years, the member pays member contributions as determined by the director, the member meets the definition of veteran in RCW 41.04.005, and the member is not receiving full military retirement benefits.

**Fiscal Impact:** None, members pay full actuarial cost of the benefit.

**Status:** Was not forwarded from the Appropriations Committee, did not receive a hearing in Ways and Means.

**Effective Date:** 90 days after session

7. **SSB 5286 - Post-retirement Employment (Kastama)**

This bill would have impacted PERS 1 and TRS 1 by amending the statutes relating to post-retirement employment. The bill would have done the following:

- Limited TRS 1 post-retirement employment for retirees with one month of separation to 867 hours in a school year.
- Allowed a TRS 1 retiree to work up to 1,500 hours in a school year if the member separates for one and one-half calendar months and,
  - is hired into a special education, science, or mathematics position for which the school board has documented a justifiable need to hire a retiree,
  - is hired through the established process for the position with the approval of the school board or the prospective employer; and

- the employer retains records of the hiring procedures in the event of an audit.
- Provided the superintendent of public instruction a process to recommend to the legislature a list of employment positions to be considered for inclusion on the list of those with a documented justifiable need for which a retiree may be hired.
- Allowed TRS 1 members currently employed under post-retirement agreements to continue in those agreements until December 31, 2005.
- Allowed a PERS 1 retiree to work up to 1,500 hours in a calendar year if the member separates for three calendar months and is hired into an actuary, actuarial associate, correctional health specialist, dentist, pharmacist, physician, public health advisor, radiation health physicist, or radiology technician position.
- Provided PERS employers a process to recommend to the legislature a list of employment positions to be considered for inclusion on the list of those with a documented justifiable need for which a retiree may be hired.
- Removed the 1,900 hour cumulative limit beyond the existing 867 hour annual threshold in PERS 1.
- Allowed PERS 1 members currently employed under post-retirement agreements to continue in those agreements until December 31, 2005.
- Required that all jobs into which a retiree may be rehired be advertized publicly.

The bill would have required that all jobs into which a retiree may be rehired be advertized publicly.

**Fiscal Impact:** Indeterminate.

**Status:** Forwarded from Ways & Means, passed to Rules for 2<sup>nd</sup> reading -  
- Senate Rules "X" file.

**Effective Date:** Immediately upon signing.

8. **SSB 5818 - Transfer DNR Law Enforcement to Fish & Wildlife (Doumit)**

The original bill would have transferred Department of Natural Resources' natural resource investigators to the Department of Fish and Wildlife. The substitute bill would have directed the Department of Natural Resources' (DNR) and the Department of Fish and Wildlife (F&W) to

present a transition plan to the appropriate legislative committees not later than December 31, 2005 that would have consolidated the natural resource investigators of DNR with the law enforcement program of F&W. If such a plan were implemented in the future, it could conceivably impact Plan 2 of the Law Enforcement Officers and Firefighters (LEOFF) Retirement System.

**Fiscal Impact:** None.

**Status:** Forwarded from the Senate Natural Resources, Ocean & Recreation Committee, passed to Rules for 2<sup>nd</sup> reading -- Senate Rules "X" file.

**Effective Date:** 90 days after session.

9. **SB 5866 - Plan 1 Member Contributions After 60% Cap (Delvin)**

This bill would have impacted TRS 1 and PERS 1 by expanding from six months to twelve months the period in which members with 30 years of service may elect to freeze their average final compensation and have future employee contributions returned in a lump sum at retirement with 7.5 percent interest.

**Fiscal Impact:** Insufficient to increase rates.

**Status:** Forwarded from Ways & Means, placed on 2<sup>nd</sup> reading in Rules -- Senate Rules "X" file.

**Effective Date:** Immediately upon signing.

10. **HB 1873 / SB 5901 - LEOFF 1 60% Cap (Simpson, Delvin)**

This bill would have impacted LEOFF 1 by removing the provision that limits the retirement allowance for those who became members on or after February 19, 1974 to 60% of their final average salary.

**Fiscal Impact:** There is a cost, but the LEOFF 1 Plan is in surplus, so there is no impact on contribution rates.

**Status:** Did not receive a hearing in either Appropriations or Ways and Means.

**Effective Date:** 90 days after session.

11. **HB 2251 - Active Military (Green)**

For an employee called to "federal service of the United States" for more than thirty days, this bill would have required the state to pay 50% of the difference between the employee's normal state pay and federal pay and allowances (if the federal pay is less than the state pay). The bill further would have provided that the employee shall continue to receive "any pension and retirement benefits he or she was receiving prior to being called to federal service as long as he or she continued to make any necessary employee contributions to those benefits that he or she would have been making if still regularly employed by the state." Payments and benefits would have been available for such service for a maximum of four years.

**Fiscal Impact:** None.

**Status:** Referred to State Government Operations & Accountability Committee -- did not receive a hearing.

**Effective Date:** 90 days after session.

12. **SB 5792 - Post-retirement Employment (Honeyford)**

This bill would have impacted TRS 1 and PERS1 by eliminating the provisions allowing retirees to engage in post-retirement employment in excess of 867 hours and up to 1,500 hours per year without suspension of their pension benefits. Existing employment agreements under the previous law would have continued until December 31, 2005.

**Fiscal Impact:** Indeterminate

**Status:** Did not move from Ways and Means committee.

**Effective Date:** Immediately upon passage.

13. **SB 6085 - Plan 1 UAAL Payments (Hewitt, Honeyford)**

This bill would have impacted the basic state and employer contribution rates ("basic rates") for the unfunded actuarial accrued liability (UAAL) in PERS 1 and TRS 1. The bill would have forbidden the suspension of those portions of the basic rates that are necessary to pay for the UAAL until 2009. In 2009, minimum basic contribution rate floors would have been established for the affected retirement systems which would remain effective until the actuarial value of assets equals one-hundred twenty-five percent of the UAAL or June 30, 2024, whichever came first.

**Fiscal Impact:** None, any additional contributions due to a floor would be offset by reduced contributions in future years. In the long term, a minimum basic contribution rate floor would result in no additional cost and possibly a savings.

**Status:** Did not receive a hearing.

**Effective Date:** Immediately in regards to UAAL payments – July 1, 2009 for contribution rate floors.

14. **SSB 6101 - Gain-sharing / Contribution Rates (Prentice)**

This bill would have impacted PERS 1, PERS 3, TRS 1, TRS 3, and SERS 3 by making gain-sharing distributions discretionary with the legislature. The bill would have codified a funding approach for gain-sharing that delayed recognition of gain-sharing liabilities until after they occur. (All other material liabilities of the pension systems are pre-funded.) The proposed legislation would have provided that for benefit increases resulting from gain-sharing, the basic contribution rate would include the cost of the increases beginning with the next actuarial valuation after the effective date of the increase.

The bill would have continued the suspension of payments to the PERS 1 and TRS 1 unfunded actuarial accrued liability (UAAL) for the 2005-07 biennium. This suspension would have impacted the contribution rates for PERS, TRS, SERS, and Public Safety Employees' Retirement System (PSERS) employers.

This bill would have also impacted PERS 2/3, SERS 2/3, and TRS 2/3 by establishing the following schedule of contribution rates for the 2005-07 biennium:

	Plan 2/3 Employer *		Plan 2 Member	
	7-1-05	9-1-05	7-1-05	9-1-05
PERS	3.57%		3.38%	
SERS		3.70%		3.51%
TRS		2.93%		2.48%

\* Includes administrative expense rate of 0.19%.

The bill would have changed the statutory policy goal that long-term contribution rates be “predictable” and a “relatively constant” proportion of state budgets, to a standard requiring that they be a relatively “predictable” proportion of state budgets.

**Fiscal Impact:** Total employer savings of \$826.7 million in 2005-07, total employer savings of \$311.2 million in 2007-09, and a total employer cost of \$2,590.7 through 2030.

**Status:** Forwarded from Ways & Means -- passed to Rules for 2<sup>nd</sup> reading.

**Effective Date:** Effective July 1, 2005, except for sections 7, 9, and 11 which take effect July 1, 2006.

15. **SB 6127 - Post-retirement Employment / 60% Cap (Fraser)**

This bill would have impacted PERS 1 and TRS 1 by increasing the maximum retirement allowance members may receive from 60 percent of average final compensation (AFC) to 70 percent of AFC. The bill also limits members of PERS 1 and TRS 1 to 867 hours of post retirement employment before their benefit is suspended for the calendar year or school year.

**Fiscal Impact:** Total employer cost of \$47.3 million in 2005-07, \$55.6 million in 2007-09, and \$786.6 million through 2030.

**Status:** Did not receive a hearing.

**Effective Date:** July 1, 2005, except for section 6 of the act which would take effect July 1, 2006 -- section 5 of the act would then expire.

# Select Committee on Pension Policy

## Opportunities for Improvement

(June 15, 2005)

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During this segment of the orientation, staff suggests that members break into small groups and discuss recommendations for improvement - looking forward.

### **Recommendations**

Each group will be given approximately 30 minutes to discuss and formulate 3 recommendations for improvement. Each group will then report their recommendations and explain how they reached their conclusions with the entire committee.



# Opportunities for Improvement

## Group 1

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**Group Members:**

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**Summary of Recommendations:**

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**1.**

*Reasons*

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**2.**

*Reasons*

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**3.**

*Reasons*

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# Opportunities for Improvement

## Group 2

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**Group Members:**

**Summary of Recommendations:**

**1.**

*Reasons*

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**2.**

*Reasons*

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**3.**

*Reasons*

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# Opportunities for Improvement

## Group 3

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**Group Members:**

**Summary of Recommendations:**

**1.**

*Reasons*

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**2.**

*Reasons*

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**3.**

*Reasons*

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